



Treasury Inspector General for Tax Administration

The Modernized e-File Project Can Improve the Management of Expected Capabilities and Associated Costs

Issued on December 27, 2006

Highlights

Highlights of Report Number: 2007-20-005 to the
Internal Revenue Service Chief Information Officer

IMPACT ON TAXPAYERS

The Modernized e-File (MeF) system provides electronic filing capability to businesses and tax exempt organizations that previously had to file paper returns. Improvements in the management of the MeF Project's capabilities and associated costs can help meet the goal to replace the Internal Revenue Service's (IRS) current tax return filing technology with a modernized, Internet-based electronic filing platform.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2006 audit plan for reviews of the IRS' modernization efforts. The overall objective of this review was to determine whether the MeF Project's release activities are ensuring its electronic filing capabilities are efficiently providing the intended benefits to the IRS and taxpayers.

Providing electronic filing capabilities for filing 330 forms through the MeF system supports and facilitates the IRS' commitment to achieve the IRS Restructuring and Reform Act of 1998 goal of receiving at least 80 percent of all tax returns in electronic form by 2007. Further, in January 2005, the Department of the Treasury mandated electronic tax return filing for certain corporations and exempt organizations.

WHAT TIGTA FOUND

The IRS' plans for processing additional tax forms using the MeF system are uncertain, including plans to schedule development of the U.S. Individual Income Tax Return (Form 1040) family, which are pending approval from the Office of Management and Budget. As a result of the uncertainties, the IRS has been unable to use fixed-price contracts for the MeF Project, has experienced difficulty in managing the Project's funding and contract accounting, and has had delays in negotiations and approvals of the Project's contracting actions.

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WHAT TIGTA RECOMMENDED

The Chief Information Officer (CIO) should ensure the MeF Project office involves the Enterprise Service organization's Business Rules and Requirements Management office in its efforts to define release requirements. The requirements definition should incorporate the concepts and plans of the Information Technology Modernization Vision and Strategy and include the content of each release, the expected deployment dates, and the anticipated funding for the release work. Upon plan approval, the MeF Project team should attempt to use fixed-price contracts based on anticipated funding and the approved release scope in accordance with existing contract guidance.

The CIO should ensure prompt notification to the Congressional committees of any proposed changes to future Modernization program expenditure plans, and identify the cost effect of deferring significant and material project release requirements or work segments to future releases. The CIO should direct the MeF Project team to work with the Procurement Office to complete the negotiations of work previously completed and clarify the policy for escalating failed negotiation attempts.

In response to the report, the IRS agreed with five of our six recommendations. To address the need to complete plans for future releases, the MeF Project has a defined sequencing plan. The IRS will evaluate the appropriateness of using fixed-price contracts after the stabilization of each release's design. The CIO has developed policies and procedures to ensure prompt notification to the Congressional committees of any proposed changes to future expenditure plans. The CIO agreed to work with the Procurement Office to complete negotiations of work previously completed and clarify the policy for escalating failed negotiation attempts. The Procurement Office developed additional guidance to timely monitor contractor progress and ensure work is properly authorized.

However, the CIO disagreed to implement a process to identify the cost effects of deferring significant and material project release requirements to future releases.

The Office of Audit commented on concerns about the rationale provided for not using fixed-priced contracts and the absence of controls to assess the cost effect of deferring requirements to future releases.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200720005fr.pdf>

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